



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 10/13/2006

GAIN Report Number: MX6085

Mexico

Sugar

Semi-Annual Report

2006

Approved by:

Sue Heinen

U.S. Embassy Mexico City

Prepared by:

Dulce Flores

Report Highlights:

Sugar production for MY 2006/07 was revised upward to 5.75 million metric tons (MMT) due to favorable weather conditions. The sugar import forecast for MY 2006/07 was revised upward as Mexico announced sugar import TRQs to cover increased demand. Sugar exports for MY 2006/07 were revised downward because of lower beginning stocks which resulted from larger than expected exports during MY 2005/06. Domestic consumption was revised upward for both MY 2005/06 and MY 2006/07 despite increases in HFCS consumption.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Mexico [MX1]
[MX]

Table of Contents

SECTION I. SITUATION AND OUTLOOK.....	3
SUGAR PRODUCTION	3
SUGARCANE PRICES	3
HFCS PRODUCTION	4
SUGAR AND HFCS CONSUMPTION	4
SUGAR TRADE	5
HFCS TRADE	6
STOCKS	6
POLICY	6
SECTION II. STATISTICAL TABLES	8
CENTRIFUGAL SUGAR TABLE	8
SUGAR CANE FOR CENTRIFUGAL	9
SUGAR PRICES	9
SUGAR TARIFFS	10

SECTION I. SITUATION AND OUTLOOK

SUGAR PRODUCTION

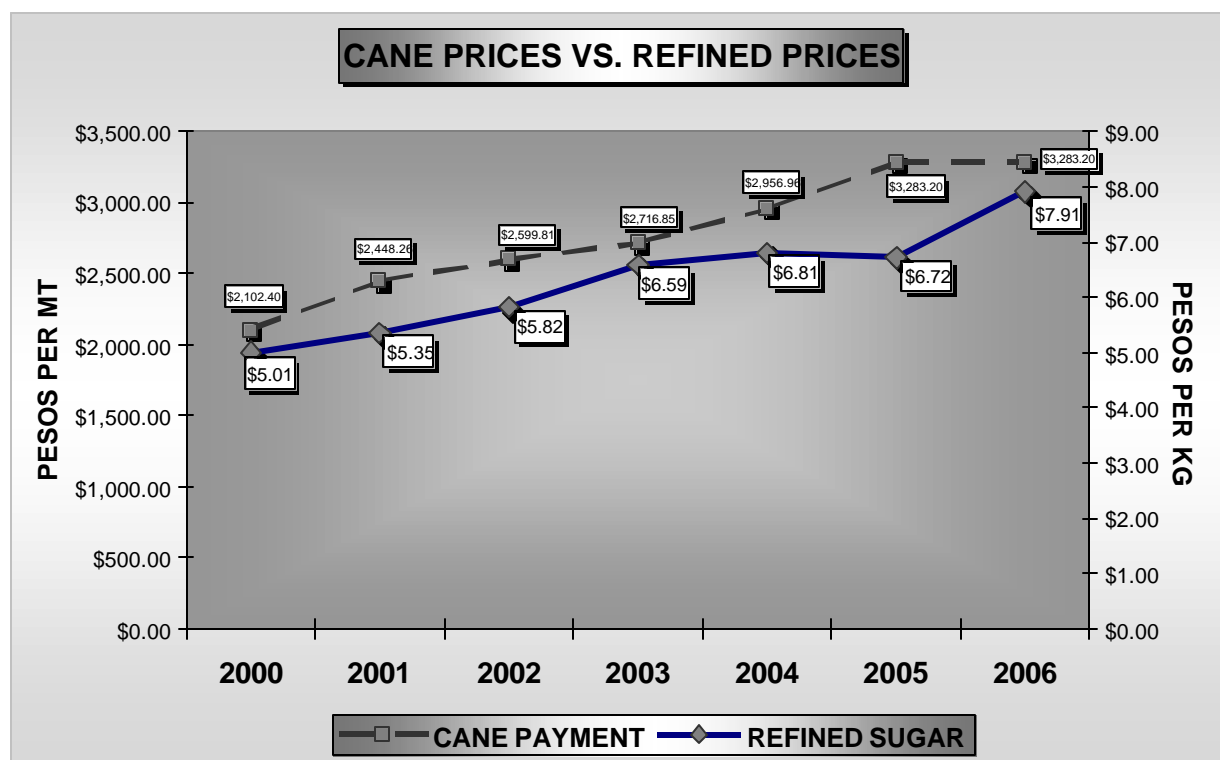
The sugar production forecast for MY 2006/07 (October/September) is 5.75 million metric tons (MMT) raw value. The Mexican sugar industry has not yet set a sugar production estimate for MY 2006/07, however, favorable weather conditions to date should lead to higher sugar production compared to MY 2005/06 production. The sugar industry has released additional data for MY 2005/06, setting the final production figure at 5.60 million metric tons (MMT) raw value, just slightly under the previous estimate as weather conditions lowered cane yields and delayed harvest for about two weeks. Data for MY 2004/05 remains unchanged.

Area planted for MY 2006/07 remains unchanged. However, area harvested and production of cane for MY 2005/06 was revised downward based on available official information, which takes into account the impact of adverse weather conditions. Area planted and harvested for MY 2004/05 remains unchanged. On average the yield of sugar per metric ton of cane in Mexico is 125 Kg. of sugar.

SUGARCANE PRICES

According to regulations, approximately 57 percent of a set reference price of standard sugar is paid to growers for their sugarcane. The reference price of standard sugar for MY 2005/06 was established at \$5,760 pesos per MT (US\$545.45/MT) in February 2006, same as in MY 2004/05 after the National Association of Sugarcane Producers and the Chamber for the Sugar and Alcohol Industries agreed that there would be no change in price because of the excess sugar supplies during 2004/05. (See Table below) This general formula for determining grower sugarcane prices had been in place since 1993, and although revoked along with the old Sugar Law, it was reenacted within the New Sugar Law published in August 2005 (See policy section). However, the Congress and Executive branch continue to debate revisions to the new law, leaving the exact process for determining the reference price uncertain. Currently, the reference price for MY 2006/07 is being discussed among producers and the sugar industry. Although the calculation will reference sugar prices registered between October 2005 and September 2006 other factors may come into play.

Recently, the president of the National Association of Sugarcane Producers expressed interest in modifying the mechanisms that determine the cane price by including the concept of a 'North American sugar market', where sugar prices in the three NAFTA countries are considered when determining the reference price. The idea is in anticipation of prices from the three countries converging to form in essence one sugar market for North America due to the complete liberalization of sweetener trade among the NAFTA partners in 2008.



Source: Diario Oficial, SAGARPA Bulletins, SNIIM-Economia

HFCS PRODUCTION

High fructose corn syrup (HFCS) production for CY 2006 is expected to be about 450,000 MT dry basis due to an overall increase in usage of HFCS. This increase was stimulated by the provision of court injunctions (Amparos), which allowed bottling companies to use domestic and imported (U.S and Canadian) HFCS without being subject to the 20 percent tax on HFCS. On March 6, 2006 the WTO announced that it rejected Mexico's appeal of the WTO's initial ruling that the 20 percent special tax on beverages made with HFCS was illegal. The new Mexican Congress that took office on September 1, 2006, has on its working agenda an initiative to eliminate the special tax on HFCS. It is expected that the tax will be cancelled by January 2007. (See Policy Section). Although domestic production is near capacity the expected removal of the 20-percent tax on beverages made with HFCS if combined with more stability in the sector could help stimulate increases in capacity over the long term.

The Mexican HFCS industry produces HFCS with domestic and imported U.S. yellow corn under special duties. The industry representing the HFCS producers, IDAQUIM, stressed the point that the industry has been using domestic yellow corn produced under contract and continues to increase usage of domestically produced yellow corn for HFCS production. Current contracts supply the Mexican corn milling companies which produce HFCS with about 40 to 50 percent of their needs for yellow corn.

SUGAR AND HFCS CONSUMPTION

The forecast for sugar consumption for MY 2006/07 was revised upward to 5.4 MMT raw value. Although increases in HFCS usage are still expected to displace some sugar consumption, overall demand for sweeteners for MY 2006/07 is likely to allow for continued growth in sugar consumption. The forecast for human domestic consumption for MY 2005/06 was revised upward to 5.3 MMT raw value as the increase in usage of HFCS did not

displace as much sugar as the sugar industry was expecting, again due to strong overall demand for sweeteners. The soft drink industry sugar consumption estimate for MY 2005/06 was also higher at about 1.3 or 1.4 MMT.

HFCS consumption for CY 2006 is forecast to increase to about 750,000 MT dry basis due to an increase in demand from the soda-drink bottlers holding court injunctions, and the expected removal of the 20-percent tax on HFCS-containing beverages (See Policy Section). The HFCS consumption estimate for CY 2005 increased to about 450,000 MT to 500,000 due to a larger demand from the soda-drink bottlers.

SUGAR TRADE

The unexpected need of the U.S. to import more sugar than originally planned and a surplus of sugar in Mexico due to the record crop in MY 2004/05, led to unique negotiations between the U.S. and Mexico on sweeteners beginning in 2005. As a result of this unusual confluence of events, the sugar market went through several changes in trade in MY 2005/06 and will undergo additional changes in 2006/07. For MY 2005/06, the U.S. granted duty free access to Mexico of 250,000 MT of sugar to the U.S. market under NAFTA provisions and Mexico granted reciprocal access of 250,000 of U.S. HFCS.

The MY 2005/06 sugar export estimate was revised upward to 680,000 MT raw value which includes some of the duty free access of sugar to the U.S. market and other exports under the U.S. global refined sugar TRQ for entry on a first-come, first-served basis. Mexico has also been exporting sugar under the NAFTA high-tier tariff schedule. Under NAFTA, for 2006 the high-tier tariff on raw sugar is 3.02 cents a pound and on refined sugar it is 3.20 cents a pound. For 2007 this tariff drops to 1.51 cents a pound for raw sugar and 1.60 cents a pound for refined sugar reaching zero in calendar year 2008. Sugar exports for MY 2006/07 were revised downward due to lower beginning inventories resulting from higher sugar exports during MY 2005/06. This amount, however, will be dependent on final sugar production figures and final policy actions that impact sugar substitution by alternative domestic and imported HFCS. Trade data for MY 2004/05 remains unchanged.

Although domestic prices for sugar tended to drop during the harvesting season in MY 2005/06, sugar prices increased substantially through the summer of 2006 under rumors of limited sugar stocks despite industry pronouncements that there was enough supply to meet demand. Prices for standard sugar in January were \$5,948 pesos/MT and for refined \$6,990 (US\$563.79/MT – US\$662.55/MT); by June prices were \$7,247 and \$8,215 pesos/MT respectively (US\$636.25/MT – US\$721.24/MT) and they continued to rise over the summer. Due to these high prices, several sugar using industry groups requested that SE allow sugar imports. As a result, the Mexican government decided to authorize the sugar TRQ as a way to “end speculation and stabilize sugar prices.” Further, representatives of sugar producers, traders, and consumers met in October to attempt to agree upon an informal base price for sugar in order to avoid additional import permits. According to reports, participating parties agreed that standard sugar prices should not rise above \$7,400 pesos/MT, and refined sugar will not rise above \$7,900 pesos/MT (standard US\$672.60/MT - refined US\$718.00/MT).

Sugar use under the “other disappearance” category which is mainly the Mexican re-export program (PITEX) remains at 350,000 MT raw value for MY 2006/07. The PITEX program allows sugar to be sold as raw material for further processing to Mexican food manufacturers, who buy the sugar from the Mexican sugar mills at international prices minus import and transportation costs or, if allowed, through imports. These food manufacturers must then process the sugar within six months of the date of purchase and must export the final processed product. Given this process, the GOM classifies the sugar sold under the PITEX

program as exports. According to the sugar industry, the total sugar used under PITEC for MY 2005/06 was about 379,000 MT raw value due to higher-than-expected demand from the industry users. Sugar use under the “other disappearance” category for MY 2004/05 remains unchanged.

The sugar import forecast for MY 2005/06 was revised upward based on industry information to 82,000 MT, with the imports going into the PITEC and *maquila* industries. Sugar import estimates for MY 2006/07 were revised upward from previous estimates due to unilateral sugar import tariff-rate quotas (TRQ) of 90,000 MT and 100,000 MT announced by the government in August 30 and September 14, 2006 (See report MX6073, MX6079) with the objective of ending speculation and stabilizing sugar prices. The 90,000 MT TRQ is expected to be used by the PITEC and *maquila* industries, the other 100,000 MT can be used by other industries including the soft drink sector. In addition, to comply with the Mexico-Nicaragua and Mexico-Costa Rica Free Trade Agreements, Mexico granted additional duty-free access to 26,761 MT of sugar from Nicaragua, and 50,845 MT for Costa Rica. Thus the total sugar allowed to be imported under these collective TRQ's by Mexico is 267,606 MT. Sugar imported under these quotas is expected to begin to arrive in the Mexican market by October 2006. Additionally, under the July 2006 agreement between Mexico and the United States, Mexico officially announced duty free access to sugar from the U.S. under NAFTA in the amount of 7,258 MT raw value for each of MY 2005/06, and MY 2006/07 as well as for the first three months of MY 2007/08 that begins on October 2007 (See report MX6077).

Note: Most of the refined sugar imported into Mexico has been classified by customs into the HTS 1701.99 category, corresponding to “other pure sucrose”. It has also been confirmed that U.S. sugar exports for Mexico were classified under the same category.

HFCS TRADE

Due to the imposition of the 20-percent duty on HFCS-containing soft drinks and beverages since January 2002, HFCS imports had decreased significantly until MY 2004/05. Consumption began to increase as some companies began to use “Amparos” or court injunctions exempting them from the 20-percent tax on HFCS. Then, in MY 2005/06 the U.S. and the Mexican governments agreed to exchange access of 250,000 MT of Mexican sugar into the U.S. market for access of the same quantity of U.S. HFCS to the Mexican market. Therefore, imports of HFCS have increased, in particular under HTS category 1702.60, which has increased from 116,081 MT for the entire MY 2004/05 to 171,706 MT through May of MY 2005/06. Imports under HTS category 1702.40 are also expected to increase. Total imports for both categories are expected to reach 300,000 MT dry basis for MY 2005/06. HFCS imports for MY 2006/07 are expected to be similar to those of MY 2005/06 if not slightly higher as it is expected that the Congress will eliminate the 20-percent duty on HFCS-containing soft drink products. (See policy section).

STOCKS

Ending stocks for MY 2006/07 have been revised downward to 1.51 MMT raw value due to lower beginning stocks resulting from higher sugar exports during MY 2005/06. However, this stock level could change depending on the Mexican export strategy as well as final sugar production levels. Sugar stock levels for MY 2005/06 were revised downward due to larger sugar exports, mainly to the United States. MY 2004/05 stock levels remain unchanged.

POLICY

At this time, the Mexican government and the sugar industry face unresolved issues pertaining to their domestic and international policies toward sugar. The new Mexican

Congress that began ordinary sessions on September 1, 2006 and the new government that will be in place December 1, 2006 will have several challenges including implementation of NAFTA provisions by 2008, the amendment of the sugar law, repeal of the 20 percent tax on HFCS, and privatization of sugar mills.

In anticipation of the NAFTA opening for sweeteners in 2008, the United States and Mexico have reached an agreement on market access for sweeteners. That agreement, set forth in an exchange of letters dated July 27, 2006, provides Mexico duty-free access to the United States for 250,000 metric tons raw value of raw or refined sugar in FY 2007 and at least 175,000 metric tons raw value of raw or refined sugar for the first three months of FY 2008 (Oct. 1 through Dec. 31, 2007). Under the agreement, Mexico will provide reciprocal access for U.S. high fructose corn syrup (HFCS), including 250,000 metric tons in FY 2007 and at least 175,000 metric tons for the first three months of FY 2008 (Oct. 1 through Dec. 31, 2007). Mexico will also establish, for the first time under NAFTA, a duty-free quota for U.S. sugar of not less than 7,258 metric tons raw value for each of marketing years 2006, 2007, and 2008. Mexico had previously withheld the establishment of such a quota under NAFTA due to the longstanding trade dispute over sugar.

In addition, under the agreement Mexico also committed to eliminating the 20-percent duty assessed to beverages that use HFCS by January 31, 2007. However, this is an issue that involves legislation from the new Mexican Congress. President Fox sent on May 2006 an initiative to the Lower House of the Congress to eliminate this tax to comply with WTO rulings. It is expected that this issue will be discussed within the Mexican Income Budget Law, and through this law the tax could be cancelled by January 2007. However, some domestic pressure is expected on the GOM and the Congress to somehow continue to limit imports of HFCS.

Along with international agreements, the Government of Mexico is dealing with a number of domestic issues, most notable its recently passed Sugar Law. Although the Fox administration canceled the old sugar legislation (see report MX5005) in an attempt to establish other mechanisms that would make the Mexican sugar sector more competitive, other political forces, including the sugarcane associations, successfully worked against this idea. The result was the creation of a new Sugar Law that includes most of the principles the old sugar legislation used to regulate the sugar sector. This new Sugar Law limits market influence on prices for sugarcane and leaves the payment for sugarcane as it was, regulated by federal decrees. The Sugar Law was approved by the Mexican Congress in June 2005 to take the place of the old legislation revoked by President Fox. However, the government and the sugar mill industry did not wholly agree with this decision and unsuccessfully tried to have the law vetoed before it was officially published. After protracted negotiations, the Secretariat of Agriculture (SAGARPA), and the Agricultural Commissions from the Congress signed a political agreement that committed the Congress to making minor modifications to the Law in exchange for SAGARPA's withdrawal of opposition to the final passage. However, the Congress did not amend the Sugar Law as agreed leaving the sugar industry with an uncertain legal framework. The new Congress will take up this task.

The new government will have to manage the return of 20 of Mexico's 23 government-owned sugar mills back to private ownership. The government expropriated 27 mills in September 2001, four of which had to be returned through court rulings to their previous owners in February 2004. Then in January 2006, the Supreme Court of Justice (SCJ) declared that the entire expropriation of the nation's sugar mills by the government in 2001 was unconstitutional, and ordered the Secretariat of Agriculture (SAGARPA) to return the mills to their original owners. As of July 2006, SAGARPA has returned three of the four sugar mills that were expropriated from the Machado Group in September 2001: Central Progreso and

Fomento Azucarero del Golfo mills in the state of Veracruz, and La Margarita mill in Oaxaca. No other mills have yet to be returned.

The transformation of the sugar industry will be another factor that the new government has to consider in its overall policies. The Mexican industry and government officials recognize the need to diversify the sugar industry. Currently, most of the sugar cane production goes into the production of sugar. The sugar industry is pushing the government to develop a bio-ethanol industry as a key part of diversification, and the Sugar Law already has some provisions towards such diversification. However, many have pointed out that successful development requires substantial investment in plants and infrastructure as well as the participation of Mexico's energy sector. The new Congress has on its agenda the analysis of the Biofuels Law which includes a series of actions to produce "cleaner" fuels and to stimulate biofuel production. Meanwhile, under the Competitiveness Program for the Sugar Industry, announced by SE, two plants are being built to produce ethanol, one plant using sugarcane and the other using corn. Also, private companies are already working on the design of ethanol production plants, seeking investment and potential markets for the ethanol. Some local governments are also indicating that they will provide some "supports" to produce ethanol based on sugarcane. However, since the Sugar Law is still an uncertain legal framework, there is no certainty about the policy and pricing of sugarcane for ethanol production purposes. In addition, the government has yet to establish a comprehensive biofuel policy. More information about Mexico's policy on Biofuels including ethanol production can be found in report MX 6049.

SECTION II. STATISTICAL TABLES

CENTRIFUGAL SUGAR TABLE

MEXICO									
Sugar, Centrifugal (1000 MT)									
	2005 Revised			2006 Estimate			2007 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin	10/2004			10/2005			10/2006		
Beginning Stocks	1,237	1,237	1,237	2,045	2,045	2,045	1,874	1,806	1,372
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	6,149	6,149	6,149	5,623	5,623	5,604	5,650	5,750	5,750
Total Sugar Production	6,149	6,149	6,149	5,623	5,623	5,604	5,650	5,750	5,750
Raw Imports	8	8	8	1	1	3	1	1	1
Refined Imp. (Raw Val)	260	260	260	79	10	79	99	10	359
Total Imports	268	268	268	80	11	82	100	11	360
Total Supply	7,654	7,654	7,654	7,748	7,679	7,731	7,624	7,567	7,482
Raw Exports	9	9	9	150	150	290	50	50	40
Refined Exp. (Raw Val)	119	119	119	434	386	390	545	280	280
Total Exports	128	128	128	584	536	680	595	330	320
Human Dom. Consumption	5,199	5,199	5,199	5,040	4,987	5,300	5,141	5,092	5,400
Other Disappearance	282	282	282	250	350	379	350	350	350
Total Disappear	5,481	5,481	5,481	5,290	5,337	5,679	5,391	5,442	5,650
Ending Stocks	2,045	2,045	2,045	1,874	1,806	1,372	1,638	1,795	1,512
Total Distribution	7,654	7,654	7,654	7,748	7,679	7,731	7,624	7,567	7,482

SUGAR CANE FOR CENTRIFUGAL

MEXICO									
Sugar Cane for Centrifugal							(1000 HA) (1000 MT)		
	2005 Revised			2006 Estimate			2007 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin	11/2004			11/2005			11/2006		
Area Planted	640	640	640	663	663	663	663	663	663
Area Harvested	612	612	612	657	657	635	657	657	657
Production	50,893	50,893	50,893	48,000	48,000	47,283	50,000	50,000	50,000
Total Supply	50,893	50,893	50,893	48,000	48,000	47,283	50,000	50,000	50,000
Utilization for Sugar	50,893	50,893	50,893	48,000	48,000	47,283	50,000	50,000	50,000
Utilization for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	50,893	50,893	50,893	48,000	48,000	47,283	50,000	50,000	50,000

SUGAR PRICES

AVERAGE SUGAR PRICES UNITS: 50 KG. BULK/PESOS						
MONTH	STANDARD		CHANGE %	REFINED		CHANGE %
	2005	2006		2005	2006	
January	322.70	280.40	(13.10)	340.00	332.80	(2.11)
FEBRUARY	312.00	275.60	(11.66)	339.50	332.75	(1.98)
MARCH	306.00	273.00	(10.78)	335.60	350.00	4.29
APRIL	306.00	292.50	(4.41)	339.00	355.00	4.71
MAY	305.25	326.65	7.01	338.80	375.60	10.86
JUNE	304.10	356.00	17.06	335.75	412.00	22.71
JULY	297.25	356.00	19.76	335.75	415.25	23.67
AUGUST	300.00	458.00	52.66	333.00	459.70	38.04
SEPTEMBER	289.00	N/A	N/A	330.75	528.50 ^①	59.78
OCTOBER	284.10	N/A	N/A	331.00	N/A	N/A
NOVEMBER	283.50	N/A	N/A	335.60	N/A	N/A
DECEMBER	282.50	N/A	N/A	335.10	N/A	N/A
CIF Mexico City						

Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA
http://www.economia-sniim.gob.mx/Sniim-an/e_SelAzu.asp?

2005 Avg. Exchange Rate US\$1.00=\$10.90 pesos

2006 Avg. Exchange Rate Sep 11, 2006 US\$1.00=\$11.02 pesos

① As of first. week of September 2006

SUGAR TARIFFS

MEXICAN SUGAR IMPORT TARIFFS			
H.T.S. TARIFF # SUBHEADING	NAFTA TRQ FOR 7,258 MT FOR U.S. COMMODITIES DOLLARS/Kg ① (09/13/06 TO 12/31/07)	NAFTA TARIFFS NOT UNDER THE TRQ DOLLARS/Kg ②	SPECIFIC TARIFF FOR THIRD COUNTRIES DOLLARS/Kg
1701.11.01	0	0.2704	0.338
1701.11.02	0	0.2704	0.338
1701.11.03	0	0.2704	0.338
1701.12.01	0	0.2880	0.36
1701.12.02	0	0.2880	0.36
1701.12.03	0	0.2880	0.36
1701.91.01	0	0.2880	0.36
1701.99.01	0	0.2880	0.36
1701.99.02	0	0.2880	0.36
1701.99.99	0	0.2880	0.36
1806.10.01	0	0.2880	0.36
2106.90.05	0	0.2880	0.36

Notes:

① To have this preferential treatment, the importer must have an import quota permit issued by SE, imported products must be qualified products from U.S origin according to NAFTA, and the importer must provide a written statement from the exporter that certifies that the product has not benefited from the U.S. Sugar Re-export Program (See report MX0000).

② The sugar importer must have a written statement from the exporter that certifies that the product has not benefited from the U.S. Sugar Re-export Program. If the importer has this statement, and is not importing under the TRQ then the sugar will be subject to duty on the third column. Otherwise, the product will be subject to the tariff in column four which is the General Import Tariff Law.

1995-2006 MONTHLY EXCHANGE RATE AVERAGES													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct ①	Nov	Dec	Avg.
1995	5.58	5.66	6.75	6.25	5.98	6.22	6.13	6.20	6.31	6.72	7.68	7.67	6.43
1996	7.50	7.51	7.57	7.47	7.43	7.55	7.62	7.51	7.54	7.70	7.91	7.87	7.60
1997	7.83	7.79	7.96	7.91	7.91	7.95	7.88	7.78	7.78	7.83	8.28	8.13	7.92
1998	7.83	7.69	8.97	8.09	7.76	9.33	9.75	9.31	9.73	10.64	10.53	9.91	9.13
1999	9.20	9.05	10.68	8.98	8.50	9.98	9.81	9.84	8.89	9.55	10.98	9.91	9.62
2000	9.48	9.44	9.29	9.38	9.51	9.82	9.44	9.28	9.34	9.98	9.51	9.91	9.53
2001	9.76	9.70	9.60	9.33	9.14	9.09	9.15	9.12	9.40	9.45	9.25	9.16	9.35
2002	9.16	9.10	9.07	9.14	9.49	9.75	9.79	9.83	10.05	10.09	10.19	10.21	9.82
2003	10.60	10.93	10.92	10.62	10.25	10.50	10.45	10.76	10.93	11.17	11.13	11.26	10.79
2004	10.93	11.01	11.00	11.26	11.52	11.38	11.47	11.40	11.49	11.39	11.38	11.21	11.29
2005	11.26	11.14	11.14	11.12	10.98	10.83	10.69	10.68	10.78	10.83	10.68	10.63	10.90
2006	10.56	10.48	10.73	11.03	11.08	11.39	11.00	10.87	10.89	11.04	n.a	n.a	n.a
Source: Mexican Federal Register													
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.													
① As of October 11, 2006													